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ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Commissioner

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August 31, 2006

**Re: Inclusion of hook-up fees as part of the Arizona Public Service General Rate Case,
Docket No. E-01345A-05-0816**

Dear Colleagues and Parties to the Docket:

I would like to request that the Parties to this case, specifically, Staff, RUCO and the Company, file testimony on the implementation of hook-up fees in the Arizona Public Service ("Company") service territory.¹

This issue was first raised in a March 28, 2006 letter from Commissioner Mundell in which he wrote: *"Given the significant peak load growth rate that APS is experiencing and the amount of CapEx necessary to meet that load, I think it is time to explore the option of using hook-up fees so that existing customers are not continually subject to exorbitant rate increases."*

I agree.

Hook-up fees have in the past been reserved by the Commission for use in cases involving water companies. But Arizona's unprecedented growth², our utilities' need to keep up with that growth, and most importantly, our desire to shield customers from repeated rate increases, necessitate that the Commission consider a different approach to financing the state's energy infrastructure.

In response to Staff data request EAA 4-12, the Company stated that it budgets \$1,650 per residential customer and \$4,900 per business customer for local system investment. I would like the Parties to tell the Commission whether this is the total cost to hook-up a new customer or whether it represents a portion of those costs. If it represents a portion of the cost to hook-up new customers, please itemize what costs are included in these amounts.

In its response to Staff data request EAA 4-18, which asked the Company to propose a hook-up fee that reflected the full costs associated with meeting the Company's growth, the Company stated that "it would design a hook-up fee based on the estimated incremental cost for the type of

¹ Commission Staff have also filed numerous data requests seeking information on the use and application of hook-up fees. Several of the questions contained in this letter are predicated on the responses by APS to those data requests.

² APS' retail load growth is three times the national average, and ranks as one of the fastest growing, if not the fastest growing, electric utility in America. This fact alone would seem to support a serious examination of hook-up fees.

service rendered.” For residential customers, the Company stated, “the incremental cost would include local facilities, and transformers and an allocation of backbone distribution investment. To this, we would add incremental generation costs.”³ In a later response, the Company stated that the incremental generation costs would be \$2,000/kW.⁴ I would like a discussion by the Parties of the benefits and drawbacks of including generation resource costs in any proposed hook-up fee.

Finally, I would like to know the impact to the Company’s CapEx budget of the implementation of the following hook-up fees: \$500, \$1,000, \$1,500 and \$2,000 per new residential and new non-residential connections over the next 10 years. Utilizing the Company’s responses to Staff Data request EAA 4-15 regarding projected new service connections, I calculated the revenues that would be generated from these hook-up fee amounts, which I have attached to this letter. Please tell me whether these calculations are accurate.

Finally, please outline proposals for a hook-up fee that would vary depending on whether the new home or business is located in a subdivision or in a rural setting.

As the growth on the APS system continues to exceed the national average and its CapEx spending approaches \$2-3 billion over the next three years, I believe the implementation of hook-up fees could be an important part of meeting APS’ revenue requirements and I look forward to exploring this option in the upcoming hearings.

Sincerely,



Kris Mayes
Commissioner

Cc: Chairman Jeff Hatch-Miller
Commissioner William A. Mundell
Commissioner Mike Gleason
Commissioner Barry Wong
Brian McNeil
Ernest Johnson
Heather Murphy

³ APS response to EAA 4-18.

⁴ APS response to EAA 14-5.

New Customers			Revenue to APS				
Residential		Non-Residential	Residential Hook-up Fee				
			2006	2007	2008	2009	2010
2006	37,529	6,023	\$18,764,500	\$37,529,000	\$56,293,500	\$75,058,000	\$75,058,000
2007	36,354	5,983	\$18,177,000	\$36,354,000	\$54,531,000	\$72,708,000	\$72,708,000
2008	36,901	6,017	\$18,450,500	\$36,901,000	\$55,351,500	\$73,802,000	\$73,802,000
2009	37,524	5,985	\$18,762,000	\$37,524,000	\$56,286,000	\$75,048,000	\$75,048,000
2010	36,895	5,794	\$18,447,500	\$36,895,000	\$55,342,500	\$73,790,000	\$73,790,000
2011	35,474	5,437	\$17,737,000	\$35,474,000	\$53,211,000	\$70,948,000	\$70,948,000
2012	34,277	4,991	\$17,138,500	\$34,277,000	\$51,415,500	\$68,554,000	\$68,554,000
2013	34,670	5,028	\$17,335,000	\$34,670,000	\$52,005,000	\$69,340,000	\$69,340,000
2014	34,383	4,966	\$17,191,500	\$34,383,000	\$51,574,500	\$68,766,000	\$68,766,000
2015	34,225	4,900	\$17,112,500	\$34,225,000	\$51,337,500	\$68,450,000	\$68,450,000
			Revenue to APS				
			Business Hook-up Fee				
			2006	2007	2008	2009	2010
			\$3,011,500	\$6,023,000	\$9,034,500	\$9,034,500	\$9,034,500
			\$2,991,500	\$5,983,000	\$8,974,500	\$8,974,500	\$8,974,500
			\$3,008,500	\$6,017,000	\$9,025,500	\$9,025,500	\$9,025,500
			\$2,992,500	\$5,985,000	\$8,977,500	\$8,977,500	\$8,977,500
			\$2,897,000	\$5,794,000	\$8,691,000	\$8,691,000	\$8,691,000
			\$2,718,500	\$5,437,000	\$8,155,500	\$8,155,500	\$8,155,500
			\$2,495,500	\$4,991,000	\$7,486,500	\$7,486,500	\$7,486,500
			\$2,514,000	\$5,028,000	\$7,542,000	\$7,542,000	\$7,542,000
			\$2,483,000	\$4,966,000	\$7,449,000	\$7,449,000	\$7,449,000
			\$2,450,000	\$4,900,000	\$7,350,000	\$7,350,000	\$7,350,000